

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**
A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

Table of Contents	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	MDA -1
Financial Statements:	
Statement of Net Assets	3
Statement of Revenues, Expenses and Changes in Net Assets	4
Statement of Cash Flows	5-6
Notes to Financial Statements	7-19
Additional Auditors' Reports	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance <i>Government Auditing Standards</i>	20-21
Utah State Compliance Report Based on the Requirements, Special Tests, and Provisions Required by the State of Utah's Legal Compliance Audit Guide	22-23
Summary of Audit Findings and Recommendations	24



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INDEPENDENT AUDITORS' REPORT

To the Honorable Administrative Control Board
Gunnison Valley Hospital Special Service District
Gunnison, Utah 84634

We have audited the accompanying financial statements of Gunnison Valley Hospital Special Service District (the Hospital), a component unit of Sanpete County, as of and for the year ended June 30, 2006.

These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gunnison Valley Hospital Special Service District as of June 30, 2006, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 27, 2006 on our consideration of Gunnison Valley Hospital Special Service District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages MDA-1 through MDA-6 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hawkins Cloward + Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

July 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of Gunnison Valley Hospital Special Service District's (GVH) annual financial report, GVH's management provides narrative discussion and analysis of the financial activities of GVH for the fiscal year ended June 30, 2006.

Financial Highlights

- GVH's assets exceeded its liabilities (net assets) by \$19,172,830 for fiscal year 2006 which was an increase of \$2,003,729 from fiscal year 2005's net assets recorded at \$17,169,101. This increase in net assets is a product of the operating activities of the entity which is engaged in healthcare services to the communities in Sanpete, Sevier and Wayne Counties, Utah.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$5,458,857 include land, buildings and equipment, net of accumulated depreciation and debt related to the purchase of capital assets.
 - (2) Restricted endowment and restricted debt service of \$3,034 and \$170,320 respectively.
 - (3) Unrestricted net assets of \$13,540,619 which represents the portion available to maintain the facility for quality healthcare and continuing obligations to employees and creditors. The unrestricted net assets are in the form of cash, investments, receivables, inventory and other current assets.
- The current ratio (current assets divided by current liabilities) of the entity improved to 13.1 in 2006 compared to 9.1 in 2005. Current liabilities decreased by \$257,792 from \$1,357,623 in 2005 to \$1,099,831 in 2006 and non-current liabilities decreased by \$207,023 to \$2,004,336 for the fiscal year reported.

Overview of the Financial Statements

Management's Discussion and Analysis introduces GVH's basic financial statements. The basic financial statements include: (1) The Statement of Net Assets, (2) the Statement of Revenues, Expenses, and Changes in Net Assets and (3) the Statement of Cash Flows. GVH also includes notes to the financial statements to assist in understanding the basic financial statements.

The first of these statements is the *Statement of Net Assets*. This statement presents information that includes all GVH's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of GVH is improving or deteriorating. Evaluation of the overall economic health of GVH would extend to other non-financial factors such as the number of physicians on the medical staff, visiting specialists serving the communities and the variety and strength of services offered by the entity.

The second statement is the *Statement of Revenues, Expenses, and Changes in Net Assets* which

reports how net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important function of this statement is to show the financial reliance of GVH on the revenues provided by GVH's patients and the expenditures by category that we made during the fiscal year.

The third statement is the *Statement of Cash Flows* and is designed to report on where GVH received its cash funds and how those cash funds were used in three main categories: (1) Cash Flows From Operating Activities, (2) Cash Flows From Capital and Related Financing Activities and (3) Cash Flows From Investing Activities.

Finally, the notes to the basic financial statements present essential information intended to assist the reader in understanding these statements and are found immediately after the basic financial statements.

Financial Analysis

GVH's net assets are summarized in the table below. The table shows a \$2,003,729 increase in net assets from \$17,169,101 in 2005 to \$19,172,830 in 2006.

Summary of Net Assets
June 30, 2006 and 2005

	2006	2005	Amount Change	% Change
Assets				
Cash and cash equivalents and investments	\$11,771,326	\$9,807,023	\$1,964,303	20.0%
Accounts receivable (net of allowance)	1,926,546	1,856,040	70,506	3.8%
Other current assets	735,555	704,620	30,935	4.4%
Restricted cash, cash equivalents & investments	173,354	167,200	6,154	3.7%
Capital assets	7,670,216	8,203,200	-532,984	-6.5%
Total assets	22,276,997	20,738,083	1,712,268	8.3%
Liabilities				
Total current liabilities	1,099,831	1,357,623	-257,792	-19.0%
Total noncurrent liabilities	2,004,336	2,211,359	-207,023	-9.4%
Total liabilities	3,104,167	3,568,982	-464,815	-13.0%
Net assets				
Invested in capital assets, net of related debt	5,458,857	5,806,841	-347,984	-6.0%
Restricted, endowment	3,034	3,034	0	0.0%
Restricted, debt service	170,320	164,166	6,154	3.7%
Unrestricted	13,540,619	11,195,060	2,345,559	21.0%
Total net assets	\$19,172,830	\$17,169,101	\$2,003,729	11.7%

As can be seen from above cash and cash equivalents and investments increased by \$1,964,303 from fiscal year ending 2005. This increase was fed by success in collecting accounts receivable net of allowance and the results of operations. Capital assets net of depreciation decreased during the year by \$359,630 or -4.4%. The decrease was due to

GVH's depreciation of capital assets. However, GVH invested \$391,856 in patient service technology and infrastructure during the fiscal year. Items such as a new chemistry analyzer, a central monitoring system, a physician clinic electronic medical record and billing system, and other operating equipment were added during fiscal year 2006.

Note from the Summary of Net Assets that the current and non-current liabilities of GVH decreased by \$464,815 or 13.0% from the end of fiscal year 2005 as bond and vendor obligations were met during the year.

A Summary of the Statement of Revenues, Expenses and Changes in Net Assets is shown below comparing fiscal year 2006 to fiscal year 2005 with changes shown and discussed following the table.

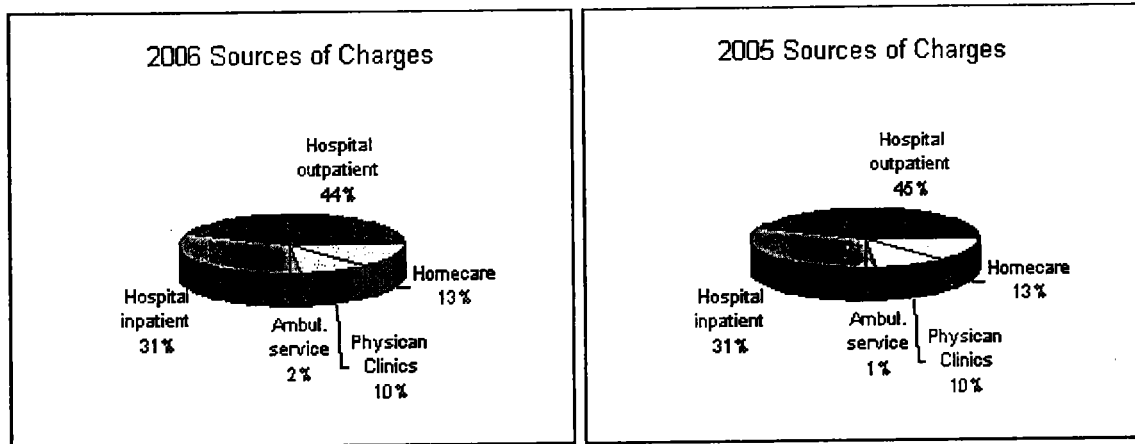
Summary of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2006 and 2005

	2006	2005	Amount Change	% Change
Operating Revenue				
Net patient service revenue	\$13,636,865	\$13,049,627	\$587,238	4.5%
Charity Care	(198,228)	(212,409)	14,181	-6.7%
Other operating revenue	230,618	232,279	(1,661)	-0.7%
Total operating revenues	13,669,255	13,069,497	599,758	4.6%
Operating Expenses				
Salaries, wages and benefits	6,504,532	6,234,514	270,018	4.3%
Contract and purchased services	1,156,860	1,064,667	92,193	8.7%
Supplies	1,902,349	1,971,625	(69,276)	-3.5%
Provision for bad debts	456,874	506,131	(49,257)	-9.7%
Depreciation and amortization	912,223	910,519	1,704	0.2%
Other	1,040,983	984,204	56,779	5.8%
Total operating expenses	11,973,821	11,671,660	302,161	2.6%
Operating income	1,695,434	1,397,837	297,597	21.3%
Nonoperating Revenues (Expenses)				
Interest income	374,486	200,844	173,642	86.5%
Interest expense	(53,574)	(63,346)	9,772	-15.4%
Other nonoperating revenue		5,563	(5,563)	
Loss on disposal of assets	(12,617)	(11,798)	(819)	6.9%
Total nonoperating revenues (expenses)	308,295	131,263	177,032	134.9%
Change in Net Assets	2,003,729	1,529,100	474,629	31.0%
Net assets - beginning of year	17,169,101	15,640,001	1,529,100	9.8%
Net assets - end of year	\$19,172,830	\$17,169,101	\$2,003,729	11.7%

Operating Revenues. Total operating revenues increased by \$599,758 or 4.6% from fiscal year 2005. This increase reflected growth in the volume of services provided during fiscal year 2006. Revenue increases were seen in the hospital and homecare services of the entity. Although, surgical services in the hospital had a 12% decrease this decrease was offset by

increases in hospital inpatient and outpatient care services. Charity care totaled \$198,228 for 2006 and \$212,409 for 2005.

The sources of patient charges or revenues as a percent of total charges are broken out graphically below by program types.



The graphs show that the largest source of patient charges came from hospital outpatient charges, 44% in 2006 and 45% in 2005, followed by hospital inpatient charges of 31% and 31% respectively, Homecare (home health and hospice) charges were next at 13% in 2006 and 13% in 2005, followed by employed physician clinics at 10% and 10% respectively, and finally the ambulance service accounted for 1% of the charges in 2006 and in 2005.

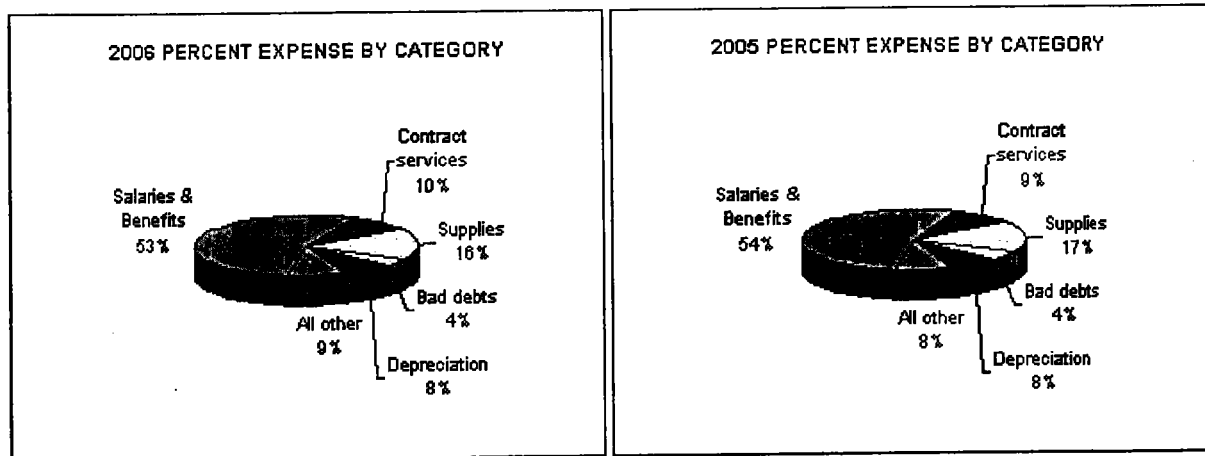
Operating Expenses. The operating expenses of the GVH for 2006 exceeded the prior year by \$302,161 or 2.6%. This expense increase was less than the 4.6% increase in total operating revenues. Expense by category differed from the prior year ranging from an 8.7% increase in "Contract and purchased services" to 9.7% decrease in "Provision for bad debts" as presented in the table of the "Summary of Revenues, Expenses, and Changes in Net Assets" previously shown. A brief explanation of the operating expense variances in fiscal year 2006 as compared to fiscal year 2005 by expense category will follow.

Salaries, wages and benefits increased from the prior year by \$270,018 or 4.3% because GVH employees received a wage rate increase during the year reported. Benefits expense increased with salaries and wages for costs related to payroll taxes, health insurance and retirement expense.

Contract purchase services increased from prior year by \$92,193 or 8.7% because of increased physical therapy services in the Hospital and Homecare agency, new occupational therapy services were added and fees paid for Hospice patient lodging in nursing homes. The decrease in supplies expense of \$69,276 or -3.5% as compared to the prior year were related to volume decreases in surgical services. Bad debt expense was \$49,257 lower than the prior year as collection efforts proved successful in 2006. The category of depreciation and amortization in 2006 was almost equal to the 2005 amount.

All other expenses which include the expense categories of maintenance, rents, utilities, insurance, and other expense had an increase of \$56,779 from the prior year. The largest single variance was in insurance expense as premiums for malpractice and property insurance have increased. Utilities and physician recruitment expense also contributed to the "Other" expense category variance as natural gas prices increased and GVH was successful in signing a physician to start in November 2006.

The graphs below show the percentage that each expense category is to total operating expense.



As shown above the largest expense of GVH is in the category of salaries and benefits comprising 53% of total operating expenses in 2006 and 54% in 2005. Supplies expense accounted for the next highest category at 16% of total operating expenses in 2006 and 17% in 2005. The next category of contract services was at 10% of total operating expense in 2006 and 9% 2005, depreciation expense followed at 8% in 2006 and in 2005, all other expenses were at 9% of total expense in 2006 and 8% in 2005 and bad debt was at 4% of total operating expenses in 2006 and in 2005.

Non-operating Revenues (Expense). Non-operating revenues and expenses were comprised of interest income, interest expense, other non-operating revenue and losses on disposal of assets. Interest income was up in 2006 by \$173,642 from fiscal year 2005 because of the increase in interest rates and the increase in average cash balances during the year. Interest expense was more in fiscal year 2006 by \$9,772. GVH was granted \$5,563 for bio-terrorism and recorded it as "Other nonoperating revenue" in 2005 and GVH also recorded a "Loss on disposal of equipment" of \$12,617 and \$11,798 in 2006 and 2005, respectively, as undepreciated equipment was replaced during the fiscal year.

Change in Net Assets. The result of the operating revenues, expenses and non-operating activities was a change in net assets of \$2,003,729 in fiscal year 2006 as compared to a change in net assets of \$1,529,100 in fiscal year 2005. This positive change in net assets allowed GVH to invest \$391,856 in patient care technology, equipment and facilities during fiscal year 2006 and \$654,580 in fiscal year 2005.

Summary

GVH has been fortunate to have had sound fiscal performance of its operating activities for the fiscal year's as presented. This performance has allowed GVH to invest in needed healthcare technology, physical plant and equipment while maintaining quality healthcare providers, nurses, technicians, and professional staff to serve the people of its' communities.

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Statement of Net Assets

June 30, 2006

With Comparative Totals for June 30, 2005

Assets	2006	2005
Current Assets		
Cash and cash equivalents (Notes 1, 2 and 3)	\$ 5,048,073	\$ 3,364,639
Investments (Notes 2 and 3)	6,723,253	6,442,384
Accounts receivable (net of allowance for doubtful accounts and contractual adjustments of \$1,313,485 in 2006 and \$1,500,684 in 2005 - Note 1)	1,926,546	1,856,040
Other receivables	9,037	6,817
Inventory (Note 1)	569,461	551,770
Other current assets	157,057	146,033
Total current assets	14,433,427	12,367,683
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	3,034	3,034
Restricted investments (Note 2)	170,320	164,166
Capital assets (Notes 1 and 4)		
Land and construction in progress	461,821	408,445
Depreciable buildings and equipment, net	7,208,395	7,794,755
Total noncurrent assets	7,843,570	8,370,400
Total assets	\$ 22,276,997	\$ 20,738,083
Liabilities		
Current Liabilities		
Accounts payable	\$ 245,301	\$ 486,171
Accrued payroll and related liabilities	555,512	545,703
Estimated third-party payor settlements payable	38,063	79,118
Accrued interest	53,932	61,631
Current portion of long-term debt (Note 5)	207,023	185,000
Total current liabilities	1,099,831	1,357,623
Noncurrent Liabilities		
Bonds payable (Note 5)	1,943,775	2,150,798
Notes payable (Note 5)	60,561	60,561
Total noncurrent liabilities	2,004,336	2,211,359
Total liabilities	\$ 3,104,167	\$ 3,568,982
Net Assets (Notes 1 and 14)		
Invested in capital assets, net of related debt	\$ 5,458,857	\$ 5,806,841
Restricted, endowment	3,034	3,034
Restricted, debt service	170,320	164,166
Unrestricted	13,540,619	11,195,060
Total net assets	\$ 19,172,830	\$ 17,169,101

See accompanying notes to financial statements.

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2006

With Comparative Totals for the Year Ended June 30, 2005

	2006	2005
Operating Revenue		
Patient service revenue	\$ 16,924,029	\$ 16,356,730
Deductions from revenue (Medicare and other)	<u>(3,485,392)</u>	<u>(3,519,512)</u>
Net patient service revenue	13,438,637	12,837,218
Other operating revenue	<u>230,618</u>	<u>232,279</u>
Total operating revenues	<u>13,669,255</u>	<u>13,069,497</u>
Operating Expenses		
Salaries and wages	4,810,916	4,696,913
Benefits	1,693,616	1,537,601
Contract and purchased services	1,156,860	1,064,667
Supplies	1,902,349	1,971,625
Maintenance	213,914	217,499
Rents and leases	137,285	160,030
Utilities	198,450	180,722
Insurance	206,339	165,034
Provision for bad debts	456,874	506,131
Depreciation and amortization	912,223	910,519
Other	<u>284,995</u>	<u>260,919</u>
Total operating expenses	<u>11,973,821</u>	<u>11,671,660</u>
Operating income	<u>1,695,434</u>	<u>1,397,837</u>
Nonoperating Revenues (Expenses)		
Interest income	374,486	200,844
Interest expense	(53,574)	(63,346)
Other nonoperating revenue		5,563
Loss on disposal of assets	<u>(12,617)</u>	<u>(11,798)</u>
Total nonoperating revenues (expenses)	<u>308,295</u>	<u>131,263</u>
Change in Net Assets	2,003,729	1,529,100
Net assets - beginning of year	<u>17,169,101</u>	<u>15,640,001</u>
Net assets - end of year	<u><u>\$ 19,172,830</u></u>	<u><u>\$ 17,169,101</u></u>

See accompanying notes to financial statements.

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Statement of Cash Flows

For the Year Ended June 30, 2006

With Comparative Totals for the Year Ended June 30, 2005

	2006	2005
Cash Flows From Operating Activities		
Receipts from customers	\$ 12,870,548	\$ 12,820,528
Payments to suppliers	(2,160,910)	(1,883,732)
Payments to employees	(6,494,723)	(6,175,352)
Payments for services	(1,786,587)	(1,680,739)
Payments for rents and leases	(137,285)	(160,030)
Other payments	(284,995)	(260,919)
Other receipts	230,618	232,279
Net cash provided by operating activities	<u>2,236,666</u>	<u>2,892,035</u>
Cash Flows From Capital and Related Financing Activities		
Principal payments on long-term debt	(185,000)	(395,822)
Proceeds from issuance of note		80,181
Purchase of property and equipment	(391,856)	(654,580)
Contributed capital		5,563
Interest paid	(61,273)	(67,800)
Net cash used by capital and related financing activities	<u>(638,129)</u>	<u>(1,032,458)</u>
Cash Flows From Investing Activities		
Purchase of investments	(287,023)	(1,889,893)
Interest income	371,920	202,607
Net cash provided (used) by investing activities	<u>84,897</u>	<u>(1,687,286)</u>
 Increase in cash and cash equivalents	 1,683,434	 172,291
Cash and cash equivalents at beginning of year	<u>3,367,673</u>	<u>3,195,382</u>
 Total cash and cash equivalents at end of year	 <u>\$ 5,051,107</u>	 <u>\$ 3,367,673</u>
 Cash and cash equivalents	 \$ 5,048,073	 \$ 3,364,639
Restricted cash and cash equivalents	<u>3,034</u>	<u>3,034</u>
 Total cash and cash equivalents at end of year	 <u>\$ 5,051,107</u>	 <u>\$ 3,367,673</u>

See accompanying notes to financial statements.

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Statement of Cash Flows *(Continued)*

For the Year Ended June 30, 2006

With Comparative Totals for the Year Ended June 30, 2005

Reconciliation of operating income to net cash provided by operating activities

	2006	2005
Cash Flows From Operating Activities		
Net operating income	\$ 1,695,434	\$ 1,397,837
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	912,223	910,519
Change in assets and liabilities:		
Net accounts receivable	(70,160)	489,857
Inventory	(17,691)	(35,888)
Other current assets	(11,024)	(52,817)
Accounts payable	(240,870)	123,781
Accrued payroll and related liabilities	9,809	59,162
Estimated third-party payor settlements payable	(41,055)	(416)
Net cash provided by operating activities	<u>\$ 2,236,666</u>	<u>\$ 2,892,035</u>

See accompanying notes to financial statements.

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements and notes of Gunnison Valley Hospital Special Service District have been prepared in accordance with *Government Auditing Standards*, generally accepted accounting principles in the United States of America, and as prescribed by the Governmental Accounting Standards Board (GASB) and accounting principles set forth in the Guide to "Audits of Providers of Health Care Services" issued by the Committee on Health Care of the American Institute of Certified Public Accountants. A summary of the more significant accounting policies is stated below.

Special Service District

On October 5, 1994, the Hospital began operating as an independent Special Service District (the District) of Sanpete County, Utah, providing health care and associated medical services. Under the guidelines established by GASB 39, the District has been determined to be a component unit of Sanpete County for financial accounting purposes and is included as a discrete component unit in the County's financial statements. Formerly, the Hospital operated under an Interlocal Cooperation Agreement entered into on July 1, 1967 between the City of Gunnison, Utah and the Towns of Centerfield, Fayette, and Mayfield, Utah (the City and Towns). All governing rights, powers, and authorities as well as the responsibility for the Hospital's operations are vested in the Administrative Control Board (the Board). Potential board members are selected by a committee that is appointed by the Board. Final determination is by the current governing board.

In the event of termination of the Hospital or liquidation of the Hospital's assets, the City and Towns have the following undivided percentage interests in the net assets of the Hospital: City of Gunnison, 62%; Town of Centerfield, 19%; Town of Mayfield, 13%; and the Town of Fayette, 6%.

Cash and Cash Equivalents

The Hospital considers all highly liquid debt and equity instruments with a maturity of less than three months when purchased to be cash equivalents.

Receivables

The Hospital's receivables are from patients who are generally from Gunnison and the surrounding rural areas in Sanpete, Sevier and Wayne Counties. An allowance for third party payor contractual discounts has been established by monitoring the average contractual discounts taken, as compared to charges by payor. This allowance is adequate as determined by management to cover anticipated contractual discount write-offs. Uncollectible accounts are charged to the allowance for doubtful accounts when collection efforts have ceased. Contractual discounts and administrative write-offs for third party payors are charged to operations in the period payments are received.

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables (Continued)

A provision or allowance for doubtful accounts is maintained separately from the allowance for contractual discounts. After a patient responsibility account has received a series of letters (about 105 days after discharge) the account is placed with a pre-collection agency for ninety days. If the account is not resolved by the pre-collection agency, it is turned over to a collection agency and written off by charging the allowance for doubtful accounts and reducing the accounts receivable balance.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Differences between retroactive adjustments and accrued settlements are recognized in the Hospital's financial records in the year of settlement.

Inventory

Inventory is valued at the lower of cost or market. Cost is determined by the first-in, first-out method.

Basis of Accounting

Proprietary funds focus on measurement of the flow of economic resources. With this measurement focus, all assets and liabilities associated with the operation of this fund, both current and non-current, are included on the statement of net assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Proprietary funds follow all Governmental Accounting Standards Board (GASB) pronouncements. In addition, all Financial Accounting Standards Board (FASB) statements and pronouncements issued on or before November 30, 1989 are followed, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations.

The principal operating revenues of the Hospital are fees for healthcare and related services provided to residents within Gunnison and the surrounding areas. Operating expenses for the Hospital include the costs of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. There were no significant reductions in coverage from the prior year and settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital is commercially insured for medical malpractice claims and judgments, as discussed in Note 9.

Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the Hospital as assets with an initial, individual cost of more than \$1,000. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

Depreciation is computed using the straight-line method over the useful life of the asset. Estimated useful lives of the various classes of depreciable capital assets are as follows:

	<u>Years</u>
Buildings and improvements	5 - 40
Equipment	5 - 10
Land improvements	10 - 20
Vehicles	2 - 10
Moveable equipment	2 - 20
Fixed equipment	5 - 20

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the income for the period.

Assets the Hospital is constructing are not placed in service until the construction is complete; therefore, no depreciation is taken.

Budgeting

The Hospital's governing board adopts a budget for each fiscal year prior to the beginning of the year. These budgets are amended during the year, as the board deems necessary, to accommodate current

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgeting (Continued)

operations and are accepted by official vote of the board. The board amended the budget for the year ending June 30, 2006.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Unrestricted and Restricted Donations

In accordance with the AICPA audit and accounting guide, "Audits of Providers of Health Care Services," unrestricted donations are accounted for as non-operating revenue. Donations restricted for operating purposes are accounted for as other revenue and donations restricted for land, building, and equipment are accounted for as non-operating revenue.

Compensated Absences

The Hospital's compensation policy permits employees to accumulate unused vacation. Portions of amounts accumulated at any point in time can be expected to be redeemed before termination of employment. The amounts of accrued vacation are \$212,260 as of June 30, 2006.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Hospital or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Hospital first utilizes restricted resources to finance qualifying activities.

Reclassifications

Comparative data for the prior year have been presented in the financial statements to provide an understanding of changes in the Hospital's financial position and results of operations. Certain data for the year ended June 30, 2005 have been reclassified to conform to the June 30, 2006 presentation.

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 2 — DEPOSITS AND INVESTMENTS

Deposits and investments for the Hospital are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council (the Council). Following are discussions of the Hospital's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be recovered. The Hospital's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the Hospital to be in a *qualified depository*, defined as any financial institution whose deposits are insured, up to a mandatory limit, by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, \$1,517,595 of the Hospital's bank balances of \$1,684,281 were uninsured and uncollateralized.

Investments. Custodial credit risk for investments is the risk that in the event of failure of the counterparty, the Hospital will not be able to recover the value of its investments that are in the possession of an outside party. As with Deposits, the Hospital's policy for managing custodial credit risk of investments is to adhere to the Money Management Act.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The Hospital's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investments securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rate "A" or higher by two nationally recognized statistical rating organizations defined in the Act.

The Hospital is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

Following are the Hospital's investments at June 30, 2006:

Investment Type	Fair Value	Maturity	Credit Quality	% of Investments
PTIF	\$ 3,445,585	Less than 1 year	Not Rated	N/A
Certificates of Deposit	3,150,814	Less than 1 year	N/A	N/A
Externally Managed Investment Portfolio				
Cash and Equivalents	\$ 105,431	N/A	N/A	2.83
FHLB 2.75	372,684	Less than 1 year	Aaa	9.96
FHLB 4.625	215,432	Less than 1 year	Aaa	5.75
FHLB 5.00	303,354	Less than 1 year	Aaa	8.03
FHLMC	302,600	Less than 1 year	Aaa	8.11
FHLB 4.65	149,335	Less than 1 year	Aaa	4.01
Mendocino Cnty CA Note	77,583	Less than 1 year	Aaa	2.01
Coast Cmnty College Note	151,364	Less than 1 year	Aaa	4.02
Port Auth NY & NJ Note	150,541	Less than 1 year	Aaa	4.00
Liberty Harbour Commercial Paper (C/P)	179,923	Less than 1 year	P-1	4.83
Time Square Fndg C/P	179,845	Less than 1 year	P-1	4.82
Torchmark Corp C/P	179,809	Less than 1 year	F1	4.82
Hannover Fndg C/P	99,746	Less than 1 year	P-1	2.68
Belle Haven Abs C/P	179,464	Less than 1 year	P-1	4.81
Ocala Fndg C/P	99,582	Less than 1 year	P-1	2.67
FHLB CMT Var	100,204	Less than 1 year	Aaa	2.68
FHLB Float	345,745	Less than 1 year	N/A	9.25
Country Wide Home Loan	99,272	Less than 1 year	A3	2.63
General Elec Capital	150,484	Less than 1 year	Aaa	4.02
JP Morgan Chase	150,522	Less than 1 year	Aa3	4.03
Caterpillar Financial Serv	149,830	Less than 1 year	P-1	4.02
Investment Portfolio Total	<u>\$ 3,742,750</u>			

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Hospital manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the Hospital's investments are noted above.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Hospital's investment in a single issuer. The Hospital's policy to limit this risk is to adhere to the rules of the Money Management Council. The Council's rule 17 limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the Hospital's portfolio at the time of purchase.

The Hospital has Certificates of Deposit (CDs) that are generally categorized as commercial paper. Though CDs are generally categorized as commercial paper, the Money Management Council defines CDs as "Deposits" and excludes them from the limit requirements when calculating the concentration of credit risk.

However, the Hospital's externally managed investment portfolio is subject to the concentration limit requirements. As noted in the table above, the Hospital's investments are within the limits established by the Council's rule 17.

NOTE 3 – ASSETS LIMITED AS TO USE

The following asset designations have been made by the Hospital's Board:

	2006
Designated:	
Cash - debt service	\$ 351,525
Investments - debt service	1,138,053
Total	<u>\$ 1,489,578</u>
Restricted:	
Cash - endowment	\$ 3,034
Investments - debt service	170,320
Total	<u>\$ 173,354</u>

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment includes the following at June 30, 2006:

	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
Capital assets, not being depreciated				
Land	\$ 394,790			\$ 394,790
Construction in progress	13,655	\$ 67,031	\$ (13,655)	67,031
Total capital assets, not being depreciated	<u>408,445</u>	<u>67,031</u>	<u>(13,655)</u>	<u>461,821</u>
Capital assets, being depreciated				
Buildings and land improvements	6,756,463	19,789	(55,057)	6,721,195
Leasehold improvements	170,369			170,369
Major moveable equipment	5,328,306	318,691	(174,511)	5,472,486
Total capital assets, being depreciated	<u>12,255,138</u>	<u>\$ 338,480</u>	<u>\$ (229,568)</u>	<u>12,364,050</u>
Less: accumulated depreciation	<u>(4,460,383)</u>			<u>(5,155,655)</u>
Total capital assets, net	<u><u>\$ 7,794,755</u></u>			<u><u>\$ 7,208,395</u></u>

NOTE 5 – NOTES AND LONG-TERM DEBT

Series 1995 General Obligation Bonds

The Hospital issued Series 1995 General Obligation Hospital Bonds in the amount of \$1,350,000 at 2.5% interest for the purpose of constructing an addition to the hospital. Principal and interest payments are due August 1 of each year beginning in 1995 through 2014.

Series 2002 Hospital Revenue Bonds

The Hospital issued Series 2002 Hospital Revenue Bonds in the amount of \$2,000,000 at 2.5% interest for the purpose of constructing an addition to the hospital or building a physician's clinic. Principal and interest payments are due July 1 of each year beginning in 2003 through 2017. If annual principal payments are not paid timely, both issues will be subject to an 18% interest rate.

Dr. Lamar Stewart Note Payable

The Hospital purchased a medical clinic building and associated land from Dr. Stewart in the amount of \$80,181 at 2.5% interest. An initial payment of \$19,620 was made in 2005 leaving a remaining balance of \$60,561. Principal and interest payments are due July 1 of each year beginning in 2006 through 2009.

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 5 – NOTES AND LONG-TERM DEBT (CONTINUED)

The Hospital's long-term liabilities for the year ended June 30, 2006 are as follows:

	Balance 6/30/2005	Additions	Reductions	Balance 6/30/2006	Due Within One Year
Bonds					
CIB 1995	\$ 757,000		\$ (68,000)	\$ 689,000	\$ 69,000
CIB 2002	1,578,798		(117,000)	1,461,798	120,000
Note payable					
Dr. Lamar Stewart	60,561			60,561	18,023
Total long-term debt	<u>\$ 2,396,359</u>	<u>\$ -0-</u>	<u>\$ (185,000)</u>	<u>\$ 2,211,359</u>	<u>\$ 207,023</u>

The following is a schedule of long-term debt maturities by year:

Year Ended June 30	Principal	Interest	Total
2007	\$ 207,023	\$ 55,367	\$ 262,390
2008	212,514	50,151	262,665
2009	223,024	44,811	267,835
2010	204,000	39,220	243,220
2011	210,000	34,120	244,120
2012-2016	1,154,798	92,295	1,247,093
	2,211,359	315,964	2,527,323
Less current portion:	(207,023)	(55,367)	(262,390)
	<u>\$ 2,004,336</u>	<u>\$ 260,597</u>	<u>\$ 2,264,933</u>

NOTE 6 – OPERATING LEASE COMMITMENTS

The Hospital has four lease agreements: the Jackson Family Practice, a conference room, a specialist medical clinic and the Monroe Clinic. Each lease has a monthly payment required of \$3,000, \$400, \$1,150 and \$375 respectively with lease ending dates of December 2009, September 2007, September 2007 and June 2011, respectively.

The following is a schedule by year of future minimum lease payments required under operating lease agreements. All have initial or remaining terms in excess of one year as of June 30, 2006:

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 6 — OPERATING LEASE COMMITMENTS (CONTINUED)

Year Ended	
<u>June 30</u>	<u>Lease Payments</u>
2007	\$ 54,450
2008	40,500
2009	40,500
2010	22,500
2011	4,500
Total	<u>\$ 162,450</u>

NOTE 7 — NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare. During the 2006 fiscal year the Hospital converted from a reimbursement system based upon prospectively determined rates per diagnosis to a system of that is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. This change took place December 30, 2005. The conversion was based upon the Hospital qualifying with Medicare as a critical access hospital (CAH).

At June 30, 2006, final Medicare settlements have been made for fiscal years through June 30, 2005. The cost report for the stub period that began July 1, 2005 and ended December 29, 2005 has been filed and final determination is pending. Final determination adjustments are included in operations in the year of occurrence.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a discount from established charges methodology. Outpatient services are reimbursed according to a Medicaid fee schedule.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, fee schedules and discounts from established charges.

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 8 – RETIREMENT PLANS

The Hospital contributes to the Local Government Contributory and Local Government Noncontributory Retirement Systems cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the *Utah Code* Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory and Noncontributory Retirement Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Under provisions of the contributory plan, the Hospital contributed 2.05% of the required 6% employee contribution to the vested account of the employees for the year ended June 30, 2006. The Hospital also contributed a matching portion of 7.08%, making a total of 13.08% contributions for the year ended June 30, 2006. Under provisions of the noncontributory plan, the Hospital contributed 11.09% of the vested account of the employees for the year ended June 30, 2006.

The Hospital's contributions to the Local Governmental Contributory Retirement System for the years ended June 30, 2006, 2005 and 2004 were \$4,536, \$4,548, and \$3,689, respectively, and for the Noncontributory Retirement System the contributions for the years ended June 30, 2006, 2005 and 2004 were \$464,570, \$457,351, and \$369,777, respectively. The contributions were equal to the required contributions for each year. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

NOTE 9 – MALPRACTICE LOSS CONTINGENCIES

The Hospital maintains insurance for malpractice liabilities in amounts considered adequate by Hospital management. At June 30, 2006, no claims had been filed in excess of such amounts; however, claims may yet be asserted arising from services provided in the past.

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 10 – CHARITY CARE

The Hospital donates healthcare services to the community. The hospital's charitable philosophy is to provide care regardless of the patient's ability to pay. The decision whether or not to accept a request for charity assistance is made with the discretion and compassion of hospital personnel. Charity assistance is handled on an application basis and each application stands on its own merits. The total services donated during the year ended June 30, 2006 was \$198,228.

NOTE 11 – DONATED SERVICES

Volunteers donate their time to the Hospital performing non-essential services. No amounts have been reported in the financial statements for these services.

NOTE 12 – ECONOMIC DEPENDENCY

The Hospital is economically dependent on the medical services it provides within its geographic region of Sanpete, Sevier, and Wayne Counties, Utah. The Hospital received approximately 98.3% of its net operating revenues from services for the year ended June 30, 2006.

NOTE 13 – CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of net patient receivables from payors at June 30, 2006, was as follows:

Medicare	28%
Medicaid	9%
Other third-party payors	48%
Self pay patients	15%
	<hr/>
	100%

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2006

NOTE 14 – NET ASSETS

Net assets at June 30, 2006:

Invested in capital assets, net of related debt:	
Property, plant, and equipment, net	\$ 7,670,216
Outstanding debt issued to construct capital assets	<u>(2,211,359)</u>
Total invested in capital assets, net of related debt:	<u>5,458,857</u>
Restricted net assets:	
Restricted for endowment	3,034
Restricted for debt service	<u>170,320</u>
Total restricted net assets:	<u>173,354</u>
Unrestricted net assets:	<u>13,540,619</u>
Total net assets	<u><u>\$ 19,172,830</u></u>



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Administrative Control Board
Gunnison Valley Hospital Special Service District

We have audited the financial statements of Gunnison Valley Hospital Special Service District as of and for the year ended June 30, 2006 and have issued our report thereon dated July 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Gunnison Valley Hospital Special Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gunnison Valley Hospital Special Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use of the Administrative Control Board, management, and the Utah State Auditor's office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

July 27, 2006



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UTAH STATE COMPLIANCE REPORT BASED ON THE REQUIREMENTS, SPECIAL TESTS, AND PROVISIONS REQUIRED BY THE STATE OF UTAH'S LEGAL COMPLIANCE AUDIT GUIDE

To the Honorable Administrative Control Board
Gunnison Valley Hospital Special Service District
Gunnison, Utah 84634

We have audited the financial statements of the Gunnison Valley Hospital Special Service District for the year ended June 30, 2006, and have issued our report thereon dated July 27, 2006. The Hospital received the following non-major grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to test-work as part of the audit of the Hospital's financial statements.)

Department of Health: EMS Fines – Grants
Community and Economic Development: Community Impact Loans

Our audit also included test work on the Hospital's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Special Districts
Other General Compliance Issues

The Hospital did not receive any major State grants during the year ended June 30, 2006.

The management of Gunnison Valley Hospital Special Service District is responsible for the Hospital's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above has occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Gunnison Valley Hospital Service District, complied, in all material respects, with the general compliance requirements identified above, for the year ended June 30, 2006.

This report is intended for the information of the Administrative Control Board, management, and the Utah State Auditor's office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

July 27, 2006

**GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT
SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS**

June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Gunnison Valley Hospital Special Service District.
2. There were no reportable conditions relating to the audit of the financial statements as reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*.
3. No instances on noncompliance material to the financial statements of Gunnison Valley Hospital Special Service District were disclosed during the audit.

B. FINDINGS – CURRENT YEAR

None

C. FINDINGS – PRIOR YEAR

None